MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC1624 – MANAGEMENT ACCOUNTING 1

(All sections / Groups)

26 OCTOBER 2017
9.00 am - 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 5 Questions only.
2. Answer **ALL** Questions in the answer booklet provided.

QUESTION 1

Lee Lee Bhd manufactures beverages for the Malaysian market. The following data relates to its July 31, 2017 fiscal year end:

Raw materials inventory, August 1, 2016	RM185,000
Raw materials inventory, July 31, 2017	140,000
Work in process inventory, August 1, 2016	25,000
Work in process inventory, July 31, 2017	35,000
Finished goods inventory, August 1, 2016	375,000
Finished goods inventory, July 31, 2017	390,000
Direct labour	1,200,000
Sales commissions	400,000
Factory supervisors' wages	240,000
Company president's salary	250,000
Purchases of raw materials	3,250,000
Property taxes (75% factory, 25% office)	100,000
Depreciation (90% factory, 10% office)	1,700,000
Repairs and maintenance (95% factory, 5% office)	200,000
Utilities expense (90% factory, 10% office)	600,000
Sales revenue	10,300,000

Required:

Based on the information above:

a) Prepare a schedule of cost of goods manufactured.

(7.5 marks)

b) Prepare a schedule of cost of goods sold.

(1.5 marks)

c) Prepare an income statement (assuming a tax rate of 25%.)

(7.5 marks)

d) Assume that Lee Lee Bhd's accounting records show the balances of the following current asset accounts: Cash RM17,000, Account Receivable (net) RM120,000, Prepaid expenses RM13,000 and Short term Investments RM26,000. Prepare the current assets section of the balance sheet for Lee Lee Bhd as of July 31, 2017.

(3.5 marks)

(Total 20 marks)

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QUESTION 2

The Cenergy Bhd produces only two products: a major computer part and cell phones. The company uses a normal cost system and overhead costs are currently allocated using a predetermined overhead rate based on direct labor hours. Outside cost consultants have recommended, however, that the company use activity-based costing to charge overhead to products.

The company expects to produce 4,000 computer parts and 2,000 cell phones in 2017. Each computer part requires two direct labor hours to produce and each cell phone requires one-half hour to produce.

The direct material and direct labor costs included in the two products are as follows:

Item	Computer Part	Cell Phone
Direct Material (per unit)	RM30	RM17
Direct Labor (per unit)	RM16	RM4

Budgeted (Estimated) Total Manufacturing Overhead (MOH) data for 2017:

Activity	Estimated MOH (RM)	Estimated Volume Level
Production Setups	RM80,000	20 set ups
Material Handling	RM70,000	5,000 kilogram
Packaging and Shipping	RM120,000	6,000 boxes
Total Factory Overhead	RM270,000	

Based on an analysis of the three overhead activities, it was estimated that the two products would require these activities as follows in 2017:

Activity	Computer Part	Cell Phone	Overall Totals
Production Setups	5 setups	15 setups	20 setups
Material Handling	1,000 kilogram	4,000 kilogram	5,000 kilogram
Packaging and Shipping	4,000 boxes	2,000 boxes	6,000 boxes

Required:

a) Under the traditional costing method, compute the predetermined overhead rate and determine the unit cost of each product.

(6 marks)

b) Under activity based costing, compute the activity rates for each activity and determine the expected unit cost of each product.

(12 marks)

c) Discuss your findings from parts (a) and (b).

(2 marks)

(Total 20 marks)

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QUESTION 3

For nearly 20 years, Specialized Coatings has provided painting and galvanizing services for manufacturers in its region. Manufacturers of various metal products have relied on the quality and quick turnaround time provided by Specialized Coatings and its 20 skilled employees. Last year, as a result of a sharp upturn in the economy, the company's sales have increased by 30% relative to the previous year. The company has not been able to increase its capacity fast enough, so Specialized Coatings has had to turn work away because it cannot keep up with customer requests.

Top management is considering the purchase of a sophisticated robotic painting booth. The booth would represent a considerable move in the direction of automation versus manual labour. If Specialized Coatings purchases the booth, it would most likely lay off 15 of its skilled painters. To analyze the decision, the company compiled production information from the most recent year and then prepared a parallel compilation assuming the company would purchase the new equipment and lay off the workers. Those data are shown below. As you can see, the company projects that during the last year it would have been far more profitable if it had used the automated approach.

	Current Approach (RM)	Automated Approach (RM)
Sales	2,000,000	2,000,000
Variable costs	1,500,000	1,000,000
Contribution margin	500,000	1,000,000
Fixed costs	380,000	800,000
Net income	120,000	200,000

Required:

a) Compute the break-even point in sales (RM) under each approach.

(4 marks)

b) Using the current level of sales, compute the margin of safety ratio under each approach.

(2 marks)

c) Determine the degree of operating leverage for each approach at current sales levels. How much would the company's net income decline under each approach, with a 10% decline in sales?

(4 marks)

d) At what level of sales would the company's net income be the same under either approach?

(6 marks)

e) Discuss the issues that the company must consider in making this decision.

(4 marks)

(Total 20 marks)

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QUESTION 4

Chiachia Wood Bhd was established in Malaysia in 1997 and currently manufactures bookcase for the Malaysia market. The company uses variable costing to value production and inventory, and prepares its budgets in advance for each quarter. The accountant has provided a range of information for the next quarter to 31 December 2016 as follows:

Projected sales in units for the next four months:

October	November	December	January
4,300	4,900	5,500	4,200

Bookcases sell for RM75 each.

The **standard cost** card for bookcases is shown below:

Direct materials:	RM
Birch plywood sheets (RM20 per sheet)	45.00
Direct labour (RM12.40per hour)	15.50
Variables overheads (RM4 per direct labour hour)	6.00
Total	64.00

The cost of plywood sheets has not changed in the past two years and is not expected to change until March 2017. Additionally, the direct labour and variable overhead rates above are applicable for the period from 1 June 2016 to 30 May 2017.

The company estimates that at 1 October 2016 **inventory levels** will be:

Bookcases	1,400
Birch plywood sheets	1,200

To ensure that it maintains sufficient inventory of bookcase company policy is to hold 10% of the next month's unit sales in closing inventory.

For the plywood sheets the company intend to double inventory held at 1 October 2016 and maintain this level of closing inventory each month until 31 March 2017.

Required:

a) Prepare a sales budget (in units and RM) for the quarter ending 31 December 2016. (4 marks)

b) Prepare a production budget in units for the quarter ending 31 December 2016. (4 marks)

c) Prepare a materials purchase budget (in units and RM) for each material for the quarter ending 31 December 2016. (7.5 marks)

d) Prepare a labour cost budget (in units and RM) for the quarter ending 31 December 2016. (4.5 marks)

(Total 20 marks)

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QUESTION 5

Chemco produces chemicals for cleaning pools. It sells the chemicals (a powder) in four kilogram buckets. The company's standard costs per unit follow:

	Quantity	Cost	Total
Direct materials	5 kilograms	RM4.00 per kg	RM20.00
Direct labour	0.25 hours	RM10 per DL hour	2.50
Manufacturing overhead	0.25 hours	RM8 per DL hour	2.00
			RM24.50

During the month, the company produced 1,000 buckets of chemicals. The following information is known:

1. The company purchased 5,500 kilograms of direct material at a cost of RM21,450.
2. The company had no beginning inventory, and had 700 kilograms of material on hand at the end of the year.
3. The direct labour workforce worked a total of 220 hours and was paid a total of RM2,640.
4. Variable overhead of RM1,050 and fixed overhead of RM800 were incurred.

The manufacturing overhead rate of RM8 per direct labour hour can be further broken down. The company estimates variable overhead to be RM5 per direct labour hour. The company expected to produce 1,100 buckets using 275 direct labour hours during the month, and based on those estimates, variable overhead was budgeted to be RM1,375 for the month. Fixed overhead was budgeted to be RM825 for the month.

Required:

a) Compute the Direct Materials price and quantity variances. The company recently entered into a contract with a new supplier who is eager for their business. Should the company continue to work with this new supplier, or should they look for a new one.

(9 marks)

b) Compute the Direct Labour rate and efficiency variances. The company experimented using more senior staff and fewer junior employees this month. Was the experiment successful?

(8 marks)

c) Compute the Total manufacturing overhead.

(3 marks)

(Total 20 marks)

End of Paper